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C O N F I D E N T I A L SECTION 01 OF 02 ABUJA 001905

NOFORN
SIPDIS

DEPT PASS USAID/AFR/SD FOR CURTIS, ATWOOD AND SCHLAGENHAUF
DEPT PASS TO USTDA-PAUL MARIN, EXIM-JRICHTER
DEPT PASS USTR FOR AGAMA
JOHANNESBURG FOR NAGY
USDOE FOR GEORGE PERSON
TREASURY FOR PETERS, SOLOMON AND RITTERHOFF

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SUBJECT: GON FORGES AHEAD WITH DEREGULATION OF THE DOWNSTREAM SECTOR

Refs: A) LAGOS 0103, B) ABUJA 0262

Classified By: Deputy Chief of Mission Dundas C. McCullough for
reasons 1.4. (b
& d).

11. (C) SUMMARY: Full deregulation of Nigeria's downstream petroleum sector would occur with the passage of the Petroleum Industry Bill (PIB), which the Petroleum Resources Upstream Committee Chairman predicts will happen by December 2009. The elimination of the existing petroleum subsidy was scheduled for November 1 but may be delayed to coincide with the passage of the PIB. The GON spends about \$4.3 billion dollars on the petroleum subsidy per year. Opposition to deregulation by organized labor was strong but appears to be abating. In response to the GON's request for USG assistance, USTDA has initiated a Definition Mission to Nigeria's oil and gas sector. The GON wants to convert gasoline-powered vehicles to liquid petroleum gas to offset the expected rise in unregulated gasoline prices, gain carbon credits, and reduce refined petroleum product imports. END SUMMARY.

Existing Downstream Operations

12. (SBU) Nigeria's downstream petroleum sector operations include gas distribution/sale, petroleum product distribution and storage, and petroleum product retail. Efforts have been made to increase the nation's refining capacity, petroleum product distribution, natural and petroleum gas utilization, and petrochemical development projects. Nigeria's four state-owned refineries have a history of inefficient operations, poor maintenance, and sabotage. Refined petroleum products, whether domestic or imported, are distributed via a nationwide network of about 20 depots and some 5,000 kilometers pipelines. Other products include the production of liquefied petroleum gas (LPG) from natural gas, fuels and lubricating oils from crude, petrochemicals such as plastic resins like polyethylene and polyvinyl, carbon black and linear alkyl benzene that are produced at two plants in Delta State.

Deregulation Announcement Startles Industry

13. (SBU) Minister of State for Petroleum Resources Odein Ajumogobia announced the planned deregulation of the downstream petroleum sector by at the Nigeria Oil and Gas 2009 conference on February 26. He startled the audience by declaring that the GON would fully

deregulate the downstream sector and eliminate the fuel subsidy regime that fixes the retail price of gasoline and kerosene. Ajumogobia estimated that the fuel subsidy would reach about \$4.3 billion in 2009 and said that the current downstream structure as "unsustainable". He also announced plans to sell Nigeria's four refineries and establish regulations to permit third-party access to terminals, storage depots, and pipelines. On October 14, Petroleum Resources Upstream Committee Chairman and Petroleum Industry Bill Committee Chairman Senator Lee Maeba told Energy Officer that both of his committees support deregulation, which will be included in the PIB, and that the deregulated downstream industry would take care of QPIB, and that the deregulated downstream industry would take care of itself without further planning or intervention. However, Petroleum Resources Minister Lukman and NNPC General Managing Director Barkindo state that the downstream industry is inefficient and corrupt, and needs help to move forward.

14. (C) Oil and Gas Sector Reform Implementation Committee (OGIC) Chairman Dr. Mohammed M. Ibrahim recently told Energy Officer that USG advocacy in 2008 for LPG use had led to the GON's decision to use LPG to offset the impact of the elimination of the gasoline subsidy. Nigeria exports about 2.2 million metric tons of LPG per year and could easily redirect supplies for cooking and motor vehicles. The GON's objective is to provide financial incentives to encourage consumers to convert their gasoline-powered vehicles to LPG-powered or dual-powered vehicles. Ibrahim noted that Senate President David Mark had announced at the LPG Summit on October 12 that less than five percent of Nigerians benefit from the billions of subsidy dollars paid by the government on petroleum products and that the corruption associated with the distribution of these subsidies was high. He added that the GON will also apply for carbon credits and use the money to finance vehicle conversion kits, gas cooking

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appliances, and LPG public awareness programs.

Union Reaction Swift and Negative

15. (C) Total Downstream Corporate Affairs Manager O.B. Haffner attributed the strong opposition of the two major oil unions to deregulation to their control by powerful politicians and NNPC insiders who profit from corruption in the downstream sector (refteel A). Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN) is a white-collar union, while the National Union of Petroleum and Natural Gas Workers (NUPENG) is blue collar. The GON told the unions that there was no money to continue petroleum subsidy, but the unions remained concerned about implementation

16. (C) PENGASSAN President Babatunde Ogun told Labor Officer on October 16 that his union had given "conditional approval" for deregulation. He explained that PENGASSAN supports free market forces, but only in an environment that supports local production and capacity. Ogun asserted that "under the current system, there is no local production and, as a result, there is widespread fear and anger that the elimination of the fuel subsidy will make fuel unaffordable for the majority of Nigerians as prices will instead be determined by imports." Ogun explained that "reliance on imports also contributes to widespread leakage and corruption and does nothing for the local economy."

17. (C) Peter Esele, president of NUPENG's umbrella labor group, the TUC, explained to Labor Officer on October 15 that "deregulation per se is not bad, but the GON's implementation strategy is problematic because there has been no careful planning and transparency, the essential elements needed to minimize the negative impact of a policy that will affect millions of our citizens." Esele noted that the GON has promised deregulation since 1999, but "important questions have never been answered such as, at what price will you sell the products, how do you arrive at this price, and how will you ensure that the private sector will be transparent?" NUPENG President Abdulwaheed Omar is still threatening a nationwide strike if the GON follows through with deregulation.

COMMENT

¶8. (C) The GON and the National Assembly are pressing ahead with the passage of the PIB and the deregulation of the downstream sector. The use of LPG to offset higher gasoline prices, gain carbon credits, and reduce refined petroleum product imports would play a key role in the GON's PIB implementation strategy. However, it will be easier to pass the PIB than to create the implementing regulations, bureaucratic structures and physical infrastructure needed for the widespread use of LPG. END COMMENT.

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